

**REPORT OF THE AUDIT OF THE
LYON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LYON COUNTY FISCAL COURT

June 30, 2010

The Auditor of Public Accounts has completed the audit of the Lyon County Fiscal Court for fiscal year ended June 30, 2010.

We have issued unqualified opinions, on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Lyon County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$8,062,751 as of June 30, 2010. The fiscal court had unrestricted net assets of \$3,329,479 in its governmental funds as of June 30, 2010, with total net assets of \$7,075,004. In its business-type activities, total net cash and cash equivalents were \$112,080 with total net assets of \$987,747. The fiscal court had total financing obligations of \$1,113,604 and bonds payable of \$3,275,000 as of June 30, 2010 with \$59,011 and \$285,000, respectfully, due within the next year.

Report Comment:

2010-01 Internal Controls Over Receipts at the Convenience Center Should Be Strengthened

Deposits:

The fiscal court and component units' deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
LYON COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	15
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	27
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	31
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS	35
NOTES TO FINANCIAL STATEMENTS.....	37
BUDGETARY COMPARISON SCHEDULES	53
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	56
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	59
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	62
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	67
COMMENT AND RECOMMENDATION	71
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable James Campbell, Former Lyon County Judge/Executive

Honorable Wade White, Lyon County Judge/Executive

Members of the Lyon County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Lyon County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Lyon County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County, Kentucky, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods



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of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lyon County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 23, 2011 on our consideration of Lyon County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation included herein, which discusses the following report comment:

2010-01 Internal Controls Over Receipts at the Convenience Center Should Be Strengthened

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen

Auditor of Public Accounts

May 23, 2011

LYON COUNTY OFFICIALS

For The Year Ended June 30, 2010

Fiscal Court Members:

Wade White	County Judge/Executive
James Campbell	Former County Judge/Executive
Steve Cruce	Magistrate
Buddy Nichols	Magistrate
Charles Ferguson	Magistrate

Other Elected Officials:

Roger B Knoth	County Attorney
Hank O'Bryan	Jailer
Sarah Defew	County Clerk
Recebba Howard	Circuit Court Clerk
Kent Murphy	Sheriff
Christie Freeman	Property Valuation Administrator
Ronnie Patton	Coroner

Appointed Personnel:

Denise Sutton	County Treasurer
JoAnne Dean	Finance Officer

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LYON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

LYON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2010

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 3,283,479	\$ 112,080	\$ 3,395,559
Notes Receivable Due Within One Year	7,000		7,000
Total Current Assets	<u>3,290,479</u>	<u>112,080</u>	<u>3,402,559</u>
Noncurrent Assets:			
Notes Receivable Due In More Than One Year	39,000		39,000
Land	249,550		249,550
Construction in Progress	110,652		110,652
Capital Assets - Net of Accumulated Depreciation			
Land Improvements	465,114		465,114
Buildings	903,930	5,040,667	5,944,597
Vehicles	134,529		134,529
Equipment	526,654		526,654
Infrastructure	1,578,700		1,578,700
Total Noncurrent Assets	<u>4,008,129</u>	<u>5,040,667</u>	<u>9,048,796</u>
Total Assets	<u>7,298,608</u>	<u>5,152,747</u>	<u>12,451,355</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable		285,000	285,000
Financing Obligations Payable	49,011	10,000	59,011
Total Current Liabilities	<u>49,011</u>	<u>295,000</u>	<u>344,011</u>
Noncurrent Liabilities:			
Bonds Payable		2,990,000	2,990,000
Financing Obligations Payable	174,593	880,000	1,054,593
Total Noncurrent Liabilities	<u>174,593</u>	<u>3,870,000</u>	<u>4,044,593</u>
Total Liabilities	<u>223,604</u>	<u>4,165,000</u>	<u>4,388,604</u>
NET ASSETS			
Invested in Capital Assets	3,745,525	875,667	4,621,192
Restricted For:			
Debt Service		112,080	112,080
Unrestricted	3,329,479		3,329,479
Total Net Assets	<u>\$ 7,075,004</u>	<u>\$ 987,747</u>	<u>\$ 8,062,751</u>

The accompanying notes are an integral part of the financial statements.

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LYON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010

LYON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,664,252	\$ 10,175	\$ 900,798	
Protection to Persons and Property	416,676	8,595	130,914	145,743
General Health and Sanitation	205,515	52,468	18,865	16,125
Social Service	82,315			
Recreation and Culture	78,637	2,050	5,000	
Roads	811,776		1,134,298	
Interest on Long-Term Debt	15,964			
Capital Projects	5,230			
Total Governmental Activities	3,280,365	73,288	2,189,875	161,868
Business-type Activities:				
Public Properties Corporation	514,572	375,630		
Total Business-type Activities	514,572	375,630		
Total Primary Government	\$ 3,794,937	\$ 448,918	\$ 2,189,875	\$ 161,868

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Other Taxes
911 Phone Fees
In Lieu of Tax
Miscellaneous Revenues
Accrued Interest Received

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

LYON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (753,279)	\$	\$ (753,279)
(131,424)		(131,424)
(118,057)		(118,057)
(82,315)		(82,315)
(71,587)		(71,587)
322,522		322,522
(15,964)		(15,964)
(5,230)		(5,230)
(855,334)		(855,334)
	(138,942)	(138,942)
	(138,942)	(138,942)
(855,334)	(138,942)	(994,276)
586,618		586,618
91,684		91,684
171,742		171,742
35,235		35,235
30,000		30,000
368,459		368,459
214,635	2,415	217,050
78,420	8,483	86,903
1,576,793	10,898	1,587,691
721,459	(128,044)	593,415
6,353,545	1,115,791	7,469,336
\$ 7,075,004	\$ 987,747	\$ 8,062,751

The accompanying notes are an integral part of the financial statements.

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LYON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

LYON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2010

	<u>General Fund</u>	<u>Road Fund</u>	<u>HB 577 Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Cash Equivalents	\$2,457,965	\$ 121,305	\$ 621,560	\$ 82,649	\$ 3,283,479
Total Assets	<u>2,457,965</u>	<u>121,305</u>	<u>621,560</u>	<u>82,649</u>	<u>3,283,479</u>
FUND BALANCES					
Reserved for:					
Encumbrances	428				428
Unreserved:					
General Fund	2,457,537				2,457,537
Special Revenue Funds		121,305	621,560	82,649	<u>825,514</u>
Total Fund Balances	<u>\$ 2,457,965</u>	<u>\$ 121,305</u>	<u>\$ 621,560</u>	<u>\$ 82,649</u>	<u>\$ 3,283,479</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 3,283,479
Receivables	46,000
Amounts reported for Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources And Therefore Are Not Reported In The Funds.	5,850,333
Accumulated Depreciation	(1,881,204)
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	
Due In One Year-Bond And Financing Obligation Principal Payments	(49,011)
Due In More Than One Year-Bond And Financing Obligation Principal Payments	<u>(174,593)</u>
Net Assets Of Governmental Activities	<u>\$ 7,075,004</u>

The accompanying notes are an integral part of the financial statements.

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LYON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

LYON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	<u>General Fund</u>	<u>Road Fund</u>	<u>HB 577 Fund</u>
REVENUES			
Taxes	\$ 885,234	\$	\$
In Lieu Tax Payments	405,686	78,729	
Licenses and Permits	10,176		
Intergovernmental	1,352,757	846,065	59,683
Charges for Services	54,518		
Miscellaneous	64,058	8,450	
Interest	14,368	2,426	4,026
Total Revenues	<u>2,786,797</u>	<u>935,670</u>	<u>63,709</u>
EXPENDITURES			
General Government	962,403		
Protection to Persons and Property	227,281		
General Health and Sanitation	210,526		
Social Services	72,078		
Recreation and Culture	128,197		
Roads		921,516	
Capital Projects	115,882		
Administration	452,337	186,184	
Total Expenditures	<u>2,168,704</u>	<u>1,107,700</u>	
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>618,093</u>	<u>(172,030)</u>	<u>63,709</u>
Other Financing Sources (Uses)			
Proceeds from Sale of Asset		85,885	
Transfers Out	(110,771)		
Transfers In		27,771	
Total Other Financing Sources (Uses)	<u>(110,771)</u>	<u>113,656</u>	
Net Change in Fund Balances	507,322	(58,374)	63,709
Fund Balances - Beginning	1,950,643	179,679	557,851
Fund Balances - Ending	<u>\$ 2,457,965</u>	<u>\$ 121,305</u>	<u>\$ 621,560</u>

The accompanying notes are an integral part of the financial statements.

LYON COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2010
(Continued)

Non- Major Funds	Total Governmental Funds
\$ 30,000	\$ 915,234
	484,415
	10,176
185,823	2,444,328
4,500	59,018
1,422	73,930
901	21,721
<u>222,646</u>	<u>4,008,822</u>
	962,403
188,934	416,215
	210,526
2,736	74,814
	128,197
83,625	1,005,141
	115,882
38,545	677,066
<u>313,840</u>	<u>3,590,244</u>
	962,403
(91,194)	418,578
	85,885
	(110,771)
83,000	110,771
<u>83,000</u>	<u>85,885</u>
	85,885
(8,194)	504,463
90,843	2,779,016
<u>\$ 82,649</u>	<u>\$ 3,283,479</u>

The accompanying notes are an integral part of the financial statements.

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**LYON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2010

LYON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$	504,463
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Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay		234,615
Infrastructure		328,884
Depreciation Expense		(368,253)
Book Value of Disposed Assets		(18,762)
Note Receivable Principal Received		(7,000)
Proceeds on Asset Held for Resale		(85,885)
Loss on Sale of Asset Held for Resale		(17,595)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligations Payments		150,992
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Change in Net Assets of Governmental Activities	\$	721,459
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LYON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2010

LYON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2010

	<u>Business-Type Activity</u>
	<u>Enterprise Fund</u>
	<u>Public Properties Corporation</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 112,080
Total Current Assets	<u>112,080</u>
Noncurrent Assets:	
Capital Assets:	
Building	<u>5,040,667</u>
Total Noncurrent Assets	<u>5,040,667</u>
Total Assets	<u>5,152,747</u>
Liabilities	
Current Liabilities:	
Revenue Bonds	285,000
Financing Obligation	<u>10,000</u>
Total Current Liabilities	<u>295,000</u>
Noncurrent Liabilities:	
Revenue Bonds	2,990,000
Financing Obligation	<u>880,000</u>
Total Noncurrent Liabilities	<u>3,870,000</u>
Total Liabilities	<u>4,165,000</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	875,667
Restricted For:	
Debt Service	<u>112,080</u>
Total Net Assets	<u>\$ 987,747</u>

The accompanying notes are an integral part of the financial statements.

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LYON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

LYON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	<u>Business-Type Activity</u>
	<u>Enterprise Fund</u>
	<u>Public Properties Corporation</u>
Operating Revenues	
AOC Rental Payments	\$ 375,630
Total Operating Revenues	<u>375,630</u>
Operating Expenses	
Depreciation Expense	<u>92,666</u>
Total Operating Expenses	<u>92,666</u>
Operating Income	<u>282,964</u>
Nonoperating Revenues (Expenses)	
Interest Earned	8,483
Miscellaneous Revenues	2,415
Cost of Bond Issuance	(99,538)
Bond Premium Expense	(65,900)
Interest Expense	(253,401)
Trustee Fees	(500)
Management Fees	(137)
Miscellaneous Expenses	(2,415)
Bank Fees	<u>(15)</u>
Total Nonoperating Revenues (Expenses)	<u>(411,008)</u>
Change in Net Assets	(128,044)
Total Net Assets - Beginning (Restated)	<u>1,115,791</u>
Total Net Assets - Ending	<u><u>\$ 987,747</u></u>

The accompanying notes are an integral part of the financial statements.

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LYON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

LYON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2010

	<u>Business-Type Activity</u>
	<u>Enterprise Fund</u>
	<u>Public Properties Corporation</u>
Cash Flows From Operating Activities	
Payments from Customers	\$ 375,630
Net Cash Provided By Operating Activities	<u>375,630</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds from Refinancing of Debt	3,375,000
Principal and Other Costs Paid on Bonds and Financing Obligation	(4,051,906)
Other Receipts	<u>2,415</u>
Net Cash Provided By Capital and Related Financing Activities	<u>(674,491)</u>
Cash Flows From Investing Activities	
Interest Earned	<u>8,483</u>
Net Cash Provided By Capital and Related Financing Activities	<u>8,483</u>
Net Increase in Cash and Cash Equivalents	(290,378)
Cash and Cash Equivalents - July 1	<u>402,458</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 112,080</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 282,964
Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities	
Depreciation Expense	<u>92,666</u>
Net Cash Provided By Operating Activities	<u><u>\$ 375,630</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	37
NOTE 2.	DEPOSITS.....	43
NOTE 3.	CAPITAL ASSETS	44
NOTE 4.	LONG-TERM DEBT.....	46
NOTE 5.	NOTE RECEIVABLE	49
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM	49
NOTE 7.	DEFERRED COMPENSATION	49
NOTE 8.	INSURANCE	50
NOTE 9.	PRIOR PERIOD ADJUSTMENT.....	50

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Lyon County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units (Continued)

Lyon County Public Properties Corporation

The Lyon County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Properties Corporation is blended within Lyon County's financial statements. All activities of the Public Properties Corporation are accounted for within a business-type fund.

C. Lyon County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Lyon County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Lyon County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

The primary government reports the following major governmental funds:

General Fund – This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department of Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund – This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

HB 577 – The primary purpose of this fund is to account for additional fees and court costs assessed in circuit and district courts. The expenditures are restricted for courthouse debt service and administration expenses.

The primary government also has the following non-major funds: Jail Fund, Local Government Economic Assistance Fund, Emergency 911 Fund, and Poor Farm Fund which are used to account for the proceeds for specific revenue sources and expenditures that are legally restricted for specific purposes.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Emergency 911 Fund, and Poor Farm Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Enterprise Fund:

The principal operating revenues of the county's enterprise fund is rental payments on the courthouse in the Public Properties Corporation. Operating expenses for the enterprise fund include debt payments, administrative expenses, and depreciation of capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretation issued after November 30, 1989, unless Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

Enterprise Fund: (Continued)

The primary government reports the following major proprietary fund:

The Lyon County Public Properties Corporation is a bended component unit of the county. The Public Properties Corporation issues debt to build major facilities or additions. The Lyon County Public Properties Corporation has entered into a lease/sublease agreement with the Commonwealth of Kentucky, Administrative Office of the Courts (the "AOC"), in which the AOC wishes to use and sublease all or a portion of certain facilities owned or to be constructed by or on behalf of the County. The Department for Local Government does not require the County to report or budget these funds.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	10-50
Infrastructure	20,000	2-40

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information (Continued)

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Public Properties Corporation. The Department for Local Government does not require this fund to be budgeted.

J. Jointly Governed Organizations

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based upon these criteria, the following are considered jointly governed organizations of the Lyon County Fiscal Court: Lyon County–Eddyville-Kuttawa Joint Tourism Commission, Lyon County Planning and Zoning Commission, and Pennyrile Westpark Industrial Development Authority.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(D).. According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of June 30, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Decreases Ending Balance
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Land	\$ 232,750	\$ 16,800	\$ 249,550
Construction In Progress		110,652	110,652
Total Capital Assets Not Being Depreciated	232,750	127,452	360,202
Capital Assets, Being Depreciated:			
Land Improvements	529,853	13,000	542,853
Buildings	1,303,357		1,303,357
Vehicles	367,767	27,880	395,647
Equipment	806,523	66,283	(42,920) 829,886
Infrastructure	2,089,504	328,884	2,418,388
Total Capital Assets Being Depreciated	5,097,004	436,047	(42,920) 5,490,131
Less Accumulated Depreciation For:			
Land Improvements	(64,251)	(13,488)	(77,739)
Buildings	(373,929)	(25,498)	(399,427)
Vehicles	(238,032)	(23,086)	(261,118)
Equipment	(263,048)	(64,342)	24,158 (303,232)
Infrastructure	(597,849)	(241,839)	(839,688)
Total Accumulated Depreciation	(1,537,109)	(368,253)	24,158 (1,881,204)
Total Capital Assets, Being Depreciated, Net	3,559,895	67,794	(18,762) 3,608,927
Governmental Activities Capital Assets, Net	<u>\$ 3,792,645</u>	<u>\$ 195,246</u>	<u>\$ (18,762) \$ 3,969,129</u>

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 36,949
Protection to Persons and Property	33,969
General Health and Sanitation	21,097
Social Services	7,501
Recreation and Culture	6,771
Roads, Including Depreciation of General Infrastructure Assets	<u>261,966</u>

Total Depreciation Expense - Governmental Activities	<u><u>\$ 368,253</u></u>
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Capital asset activity for Business-Type Activities for the year ended June 30, 2010 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Decreases Ending Balance
<u>Business-Type Activities</u>			
Capital Assets Being Depreciated:			
Building	\$ 6,060,000	\$	\$ 6,060,000
Total Capital Assets Being Depreciated	6,060,000		6,060,000
Less Accumulated Depreciation For:			
Building	(926,667)	(92,666)	(1,019,333)
Total Accumulated Depreciation	(926,667)	(92,666)	(1,019,333)
Total Capital Assets, Being Depreciated, Net	5,133,333	(92,666)	5,040,667
Business-Type Activities Capital Assets, Net	<u>\$ 5,133,333</u>	<u>\$ (92,666)</u>	<u>\$ 5,040,667</u>

Depreciation expense was charged to functions of the Business-Type Activities as follows:

<u>Business-Type Activities:</u>			
Public Properties Corporation			\$ 92,666
Total Depreciation Expense -Business Activities			<u>\$ 92,666</u>

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt

A. Public Properties Corporation First Mortgage Revenue Bonds

The Lyon County Public Properties Corporation issued First Mortgage Revenue Bonds Series 1999 dated January 1, 1999 for \$5,180,000 to be used for the construction of the annex facility. These bonds were refinanced September 1, 2009 with the First Mortgage Revenue Refunding Bonds, Series 2009. As of June 30, 2010 First Mortgage Revenue Bonds, Series 1999 bonds had been paid in full.

B. Public Properties Corporation First Mortgage Revenue Refunding Bonds

The Lyon County Public Properties Corporation issued First Mortgage Revenue Refunding Bonds, Series 2009 dated September 1, 2009 for \$3,375,000 to be used to refinance the First Mortgage Revenue Bonds, Series 1999. Interest is payable semi-annually for 10 years and varies from 1.0 percent to 3.6 percent. The Lyon County Public Properties Corporation has leased the building to the Commonwealth of Kentucky, Administrative Office of the Courts (AOC), and AOC is providing the debt service payments as prescribed in the aforementioned agreement. As of June 30, 2010, Lyon County is in compliance with the bond agreement. The principal balance as of June 30, 2010 was \$3,275,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 285,000	\$ 85,668
2012	300,000	82,248
2013	305,000	76,997
2014	315,000	71,660
2015	320,000	64,415
2016-2020	<u>1,750,000</u>	<u>175,800</u>
Totals	<u>\$ 3,275,000</u>	<u>\$ 556,788</u>

C. Public Properties Corporation Judicial Facility Project

On February 12, 2008 Lyon County entered into a financing obligation agreement with the Kentucky Area Development District for refinancing of the courthouse project in the amount of \$900,000. The prior debt principal was retired in the amount of \$845,000. Interest is payable semi-annually at an average rate of 5.79 percent for 16 years. The Commonwealth of Kentucky, Administrative Office of the Courts (AOC) is providing the debt service payments as prescribed in the aforementioned lease. As of June 30, 2010, Lyon County is in compliance with the terms of the lease agreement. The principal balance as of June 30, 2010 was \$890,000. Future financing obligations principal and interest requirements are as follows:

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

C. Public Properties Corporation Judicial Facility Project (Continued)

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2011	\$ 10,000	\$ 44,270
2012	10,000	43,870
2013	10,000	43,470
2015	10,000	43,070
2015	10,000	42,640
2016-2020	50,000	206,720
2021-2024	790,000	102,000
Totals	<u>\$ 890,000</u>	<u>\$ 526,040</u>

D. Financing Obligation Agreement – 2009 Mack Truck

On July 31, 2008, Lyon County entered into a financing obligation agreement with the Kentucky Association of Counties Leasing Trust for funding of purchasing a Mack Truck for the Road Department in the amount of \$103,480. Interest is payable monthly at a rate of 3.943 percent for 18 months. As of June 30, 2010, this obligation had been paid in full.

E. Financing Obligation Agreement – Waterlines

On December 16, 1991, Lyon County entered into a financing obligation agreement with the Kentucky Association of Counties Leasing Trust in the amount of \$130,000 for funding of waterlines for the Lyon County Water District. On May 7, 2001, Lyon County refinanced the financing obligation principal in the amount of \$98,000 interest is payable monthly at a rate of 4.45 percent for 15 years. As of June 30, 2009, Lyon County is in compliance with the terms of the financing obligation agreement. The principal balance as of June 30, 2010 was \$46,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2011	\$ 7,000	\$ 2,254
2012	7,000	1,887
2013	8,000	1,500
2014	8,000	1,081
2015	8,000	663
2016	8,000	244
Totals	<u>\$ 46,000</u>	<u>\$ 7,629</u>

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 4. Long-term Debt (Continued)

F. Financing Obligation Agreement – Park Renovation

On June 8, 2004, Lyon County entered into a financing obligation agreement with the Kentucky Association of Counties Leasing Trust for funding of construction at Lee S. Jones Park in the amount of \$400,000. Interest is payable monthly at a rate of 3.78 percent for 10 years. The principal balance as of June 30, 2010 was \$177,604. Future financing obligation principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2011	\$ 42,011	\$ 7,387
2012	43,566	5,456
2013	45,178	3,450
2014	46,849	1,320
Totals	<u>\$ 177,604</u>	<u>\$ 17,613</u>

G. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 374,596	\$	\$ 150,992	\$ 223,604	\$ 49,011
Governmental Activities Long-term Liabilities	<u>\$ 374,596</u>	<u>\$</u>	<u>\$ 150,992</u>	<u>\$ 223,604</u>	<u>\$ 49,011</u>
<u>Business Type Activities:</u>					
Revenue Bonds	\$ 3,520,000	\$ 3,375,000	\$ 3,620,000	\$ 3,275,000	\$ 285,000
Financing Obligation	900,000		10,000	890,000	10,000
Business-Type Activities Long-term Liabilities	<u>\$ 4,420,000</u>	<u>\$ 3,375,000</u>	<u>\$ 3,630,000</u>	<u>\$ 4,165,000</u>	<u>\$ 295,000</u>

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 5. Note Receivable

On May 7, 2001, Lyon County entered into a sublease agreement with the Lyon County Water District for the funding of waterlines. The County financed the waterlines through a lease agreement with KACOLT. The Water District then signed a sublease agreement with rental payments, due to the County, in the amount of the debt service requirements. Future receivables are as follows:

	<u>Amount</u>
Short-Term	\$ 7,000
Long-Term	<u>39,000</u>
Totals	<u><u>\$ 46,000</u></u>

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

For the fiscal year ended June 30, 2010, the Lyon County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

LYON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

Note 7. Deferred Compensation (Continued)

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2010, Lyon County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustment

A. Net Asset Beginning Balance For Governmental Activities

The prior year ending balance for governmental activities has been restated for the following:

	<u>Governmental Activities</u>	
Net Assets Ending Balance Prior Year	\$	5,453,545
Plus:		
Judicial Facility Project	<u>900,000</u>	<u>900,000</u>
Net Assets Beginning Balance - Restated	<u>\$</u>	<u>6,353,545</u>

B. Net Asset Beginning Balance For Business-Type Activities

The prior year ending balance for business-type activities has been restated for the following:

	<u>Business-Type Activities</u>	
Net Assets Ending Balance Prior Year	\$	2,015,791
Less:		
Judicial Faciltiy Project	<u>\$ (900,000)</u>	<u>(900,000)</u>
Net Assets Beginning Balance - Restated	<u>\$</u>	<u>1,115,791</u>

LYON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010

LYON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2010

GENERAL FUND				
	<u>Budgeted Amounts</u>		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 660,000	\$ 786,781	\$ 885,234	\$ 98,453
In Lieu Tax Payments	435,000	477,674	405,686	(71,988)
Licenses and Permits	9,650	9,650	10,176	526
Intergovernmental Revenue	744,720	1,195,977	1,352,757	156,780
Charges for Services	44,500	44,500	54,518	10,018
Miscellaneous	5,000	61,697	64,058	2,361
Interest	10,000	10,000	14,368	4,368
Total Revenues	<u>1,908,870</u>	<u>2,586,279</u>	<u>2,786,797</u>	<u>200,518</u>
EXPENDITURES				
General Government	1,080,919	1,127,977	962,403	165,574
Protection to Persons and Property	32,810	246,557	227,281	19,276
General Health and Sanitation	186,867	228,719	210,526	18,193
Social Services	86,500	86,500	72,078	14,422
Recreation and Culture	101,255	131,055	128,197	2,858
Capital Projects	160,000	160,000	115,882	44,118
Administration	1,119,610	2,390,580	452,337	1,938,243
Total Expenditures	<u>2,767,961</u>	<u>4,371,388</u>	<u>2,168,704</u>	<u>2,202,684</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(859,091)</u>	<u>(1,785,109)</u>	<u>618,093</u>	<u>2,403,202</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>(140,909)</u>	<u>(165,534)</u>	<u>(110,771)</u>	<u>54,763</u>
Net Changes in Fund Balance	(1,000,000)	(1,950,643)	507,322	2,457,965
Fund Balance - Beginning	<u>1,000,000</u>	<u>1,950,643</u>	<u>1,950,643</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,457,965</u>	<u>\$ 2,457,965</u>

LYON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$	\$	\$	\$
In Lieu Tax Payments	84,000	84,000	78,729	(5,271)
Intergovernmental Revenue	731,765	775,679	846,065	70,386
Miscellaneous	126,500	126,500	8,450	(118,050)
Interest	5,000	5,000	2,426	(2,574)
Total Revenues	947,265	991,179	935,670	(55,509)
EXPENDITURES				
Roads	774,224	993,523	921,516	72,007
Administration	290,225	201,960	186,184	15,776
Total Expenditures	1,064,449	1,195,483	1,107,700	87,783
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(117,184)	(204,304)	(172,030)	32,274
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Asset			85,885	85,885
Transfers In		24,625	27,771	3,146
		24,625	113,656	89,031
Net Changes in Fund Balance	(117,184)	(179,679)	(58,374)	121,305
Fund Balance - Beginning	117,184	179,679	179,679	
Fund Balance - Ending	\$ 0	\$ 0	\$ 121,305	\$ 121,305

LYON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2010
(Continued)

	HB 577 Fund			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 55,000	\$ 55,000	\$ 59,683	\$ 4,683
Interest	1,500	1,500	4,026	2,526
Total Revenues	56,500	56,500	63,709	7,209
EXPENDITURES				
General Government	506,500	614,350		614,350
Total Expenditures	506,500	614,350		614,350
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(450,000)	(557,850)	63,709	621,559
Net Changes in Fund Balance	(450,000)	(557,850)	63,709	621,559
Fund Balance - Beginning	450,000	557,850	557,851	1
Fund Balance - Ending	\$ 0	\$ 0	\$ 621,560	\$ 621,560

LYON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2010

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Public Properties Corporation is not required to have a budget.

LYON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2010

LYON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2010

	Jail Fund	LGEA Fund	Emergency 911 Fund	Poor Farm Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 4,185	\$ 27,275	\$ 11,942	\$ 39,247	\$ 82,649
Total Assets	<u>4,185</u>	<u>27,275</u>	<u>11,942</u>	<u>39,247</u>	<u>82,649</u>
FUND BALANCES					
Unreserved:					
Special Revenue Funds	<u>4,185</u>	<u>27,275</u>	<u>11,942</u>	<u>39,247</u>	<u>82,649</u>
Total Fund Balances	<u>\$ 4,185</u>	<u>\$ 27,275</u>	<u>\$ 11,942</u>	<u>\$ 39,247</u>	<u>\$ 82,649</u>

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LYON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2010

LYON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2010

	Jail Fund	LGEA Fund	Emergency 911 Fund
REVENUES			
Taxes	\$	\$	\$ 30,000
Intergovernmental	107,822	75,274	2,727
Charges for Services	4,500		
Miscellaneous	1,417		5
Interest		416	217
	<u>113,739</u>	<u>75,690</u>	<u>32,949</u>
Total Revenues			
	<u>113,739</u>	<u>75,690</u>	<u>32,949</u>
EXPENDITURES			
Protection to Persons and Property	156,263		32,671
Social Services			
Roads		83,625	
Administration	38,034		511
	<u>194,297</u>	<u>83,625</u>	<u>33,182</u>
Total Expenditures			
	<u>194,297</u>	<u>83,625</u>	<u>33,182</u>
Excess (Deficiency) of Revenues Over Expenditures before Other Financing Sources (Uses)	<u>(80,558)</u>	<u>(7,935)</u>	<u>(233)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds	83,000		
Total Other Financing Sources (Uses)	<u>83,000</u>		
Net Change in Fund Balances	2,442	(7,935)	(233)
Fund Balances - Beginning	1,743	35,210	12,175
Fund Balances - Ending	<u>\$ 4,185</u>	<u>\$ 27,275</u>	<u>\$ 11,942</u>

LYON COUNTY

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

Other Supplementary Information

For The Year Ended June 30, 2010

(Continued)

Poor Farm Fund	Total Non-Major Governmental Funds
\$	\$ 30,000
	185,823
	4,500
	1,422
268	901
268	222,646
	188,934
2,736	2,736
	83,625
	38,545
2,736	313,840
(2,468)	(91,194)
	83,000
	83,000
(2,468)	(8,194)
41,715	90,843
\$ 39,247	\$ 82,649

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Honorable James Campbell, Former Lyon County Judge/Executive
Honorable Wade White, Lyon County Judge/Executive
Members of the Lyon County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lyon County, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated May 23, 2011. Lyon County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lyon County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lyon County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lyon County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation to be a material weakness.

2010-01 Internal Controls Over Receipts at the Convenience Center Should Be Strengthened



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lyon County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Lyon County Judge/Executive's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Judge/Executive's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

May 23, 2011

**LYON COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2010

**LYON COUNTY
COMMENT AND RECOMMENDATION**

Fiscal Year Ended June 30, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS

2010-01 Internal Controls Over Receipts at the Convenience Center Should Be Strengthened

Audit testing over garbage receipts at the County Convenience Center revealed material weaknesses in the collection process over these receipts. Under the current process, pre-numbered receipt forms are being issued, however, they are not issued to every customer. Instead, small individual receipts are being combined on one receipt form. These receipts forms are then totaled for the day on a cash ticket and turned over to the County Treasurer, normally on a weekly basis. The County Treasurer then recounts the cash for deposits and posts amounts to the receipts ledger. On almost all of the dates tested, we noted a variance between the cash sheets turned over by the Convenience Center and the amount of cash recounted and deposited by the County Treasurer.

Strong internal controls over receipts, especially cash receipts at decentralized locations, are very vital to ensuring protection to those receipts from misappropriation. Strong internal controls not only protect the assets at stake, but also protect the employees involved.

In order to strengthen the internal control process over garbage receipts, we recommend pre-numbered receipt forms, either manual or electronic, be issued to all customers at the County Convenience Center. These receipt forms should document the amount of the receipt and the method of payment made. At the end of the day, the receipt forms should be batched and reconciled to the cash and checks on hand. All documentation should then be turned over to the County Treasurer, preferably on a daily basis, to be recounted and reconciled to the receipt forms. After the cash has been recounted and any discrepancies have been resolved, the County Treasurer should deposit funds and post to the receipts ledger.

Former County Judge/Executive James Campbell's Response: The official did not respond.

County Judge Executive Wade White's Response: We are aware of this issue and will work to develop a better system of collection without causing an efficiency problem.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

LYON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2010**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
LYON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2010

The Lyon County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Former County Judge/Executive



County Treasurer

